

Message Text

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47

ACTION NEA-09

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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R 071056Z APR 75

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 6188

UNCLAS TEL AVIV 2032

E.O. 11652: N/A

TAGS: EFIN, IS

SUBJ: GOI APPROVES TAX REFORM PROPOSAL

REF: TEL AVIV 1580 AND PREVIOUS

1. CABINET APPROVED APRIL 6 ALL TAX REFORM PROPOSALS OF BEN SHACHAR COMMITTEE AND IMPOWERED FINANCE MINISTER RABINOWITZ TO INTRODUCE LEGISLATION IN KNESSET PROVIDING FOR IMPLEMENTATION ON JULY 1. ON SAME DAY HISTADRUT EXECUTIVE COMMITTEE AND MANUFACTURERS' ASSOCIATION FORMALLY ENDORSED BEN SHACHAR TAX PROPOSALS IN PRINCIPLE.

2. QUESTION OF COMPULSORY LOANS NOT RESOLVED AND PRESS SPECULATES GOVERNMENT WILL ELIMINATE THEM AS OF LAST MARCH 31 DUE TO DIFFICULTIES ASSOCIATED WITH CHANGE OVER FROM OLD TO NEW SYSTEM DURING FISCAL YEAR (APRIL 1-MARCH 31).

3. UNDER CURRENT PROPOSAL, INDIVIDUAL WAGE EARNERS WILL PAY TAX UNDER OLD SYSTEM UNTIL JUNE 30 AND UNDER REFORMED SYSTEM SUBSEQUENTLY. HOWEVER, GOI IS ATTEMPTING TO DEVELOP A SINGLE, BLENDED SYSTEM FOR SELF-EMPLOYED PEOPLE AND BUSINESS FIRMS FOR FY 75/76. BASIC PROBLEM OF REFORMED SYSTEM'S GENERATION OF LESS REVENUES, ESTIMATED AT IL 1 TO 1.5 BILLION
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(\$166-250 MILLION) FOR JULY 1 MARCH 31, STILL RESOLVED;
CABINET REQUESTED FINMIN TO PROPOSE SOLUTION.

4. TAXABILITY OF CAR ALLOWANCE IS PERHAPS ONE OF MOST CONTROVERSIAL ISSUES AMONG TAX PROPOSALS. UNDER PROPOSED REFORM OFFICIAL AUTOMOBILE TRAVEL WOULD BE DEDUCTIBLE FOR BUSINESSES AND SELF-EMPLOYED INDIVIDUALS BUT NOT FOR WAGE EARNERS. THS APPARENT INEQUITY IS CAUSE OF CONCERN FOR HISTADRUT AND SECRETARY GENERAL YERUHAM MESHEL HAS PROMISED TO ATTEMPT TO FIND SOULUTION.

5. IN APRIL 6 MEETING, HISTADRUT EXECUTIVE DEMANDED THAT BEN SHACHAR COMMITTEE PROPOSALS BE IMPLEMENTED IN THEIR ENTIRETY AND DECIDED THAT HISTADRUT WOULD NOT ACCEPT A SELECTIVE IMPLEMENTATION. WHILE AGREEING IN PRINCIPLE TO TAXATION OF COST-OF-LIVING ALLOWANCE, EXECUTIVE DECIDED THAT PRESENT CEILING OF IL 1,000 PER MONTH ON WHICH COLA IS PAID SHOULD BE RAISED TO IL 3 OR 4,000 PER MONTH. MESHEL ALSO INDICATED HISTADRUT WOULD AGREE TO EXTEND PRESENT WAGE AGREEMENTS, DUE TO EXPIRE JULY 1, 1975. IF AGREEMENT REACHED WITH GOI AND EMPLOYERS ON TAXATION ISSUES AND COST OF LIVING ALLOWANCE SYSTEM. VELIOTES

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